

Audit and Governance Committee

6 June 2006

Report of the Assistant Director (Audit and Risk Management)

Audit and Fraud Plan for 2006/07

Summary

- 1 This report details the planned programme of audit and fraud work to be undertaken during 2006/07 and the arrangements to report on the results of audit work and, in particular, any significant control weaknesses. The purpose of the report is to seek Members' approval for the planned programme of work.

Background

- 2 Under the new Constitution (Part 3, Schedule 2), the Audit and Governance Committee has delegated authority to approve the annual Audit Plan. The Annual Audit Plan is based on a detailed risk assessment process. Each 'auditable' area is scored using a series of criteria, including materiality, system complexity, an assessment of the control environment and the risk of fraud and corruption. The results of previous audit work and external inspections together with issues identified through the corporate risk management process are used to inform the audit risk assessment. Each 'auditable' area within the risk assessment is prioritised as high, medium or low risk. This assessment is used to help prioritise the allocation of audit resources in the context of an overall five year Strategic Audit Plan, to ensure;
 - high risk areas are reviewed on an annual basis;
 - medium risk areas are reviewed every two or three years;
 - low risk areas are reviewed once every five years (subject to resourcing constraints).
- 3 The 2006/07 Audit Plan is intended to address the known key risk areas and challenges facing the Council over the coming twelve months and includes a small amount of contingency time for dealing with unexpected events that may arise in-year.

- 4 A Counter Fraud Activity Plan has also been prepared showing the main areas of work planned for 2006/07. The Plan details available resources, proposed anti-fraud activities, and expected outcomes.

Consultation

- 5 The Chief Executive, Chief Finance Officer (the S151 Officer), and Directors have been consulted as part of the process for preparing the 2006/07 Audit Plan. This consultation work:
 - helped to confirm that the risk assessment on which the plan is based is reasonable and comprehensive;
 - enabled the scope and coverage of individual audits to be refined;
 - enabled the specific timings of individual audits to be agreed with the relevant service departments
- 6 The Audit Commission has also been consulted to:
 - avoid any possible duplication of work, and:
 - ensure that the Council continues to retain its 'managed audit' status. This is the standard to which Internal Audit must carry out work to enable the Audit Commission to place reliance on it, thereby reducing the direct costs and inputs of the external audit service to the authority.
- 7 Corporate Management Team considered and agreed the draft programme of audit and fraud work on 19 April 2006, for Members approval.

2006/07 Audit Plan

- 8 A copy of the 2006/07 Audit Plan is attached as Annex 1. It is important to note however that the particular scope and focus of any individual audit may change to reflect any further weaknesses and risks identified or perceived during the planning process for each audit. A copy of the Strategic Audit Plan is also attached as Annex 2, for information.
- 9 An analysis of the time available to complete the Audit Plan has been completed, based on existing staffing and resources within the Internal Audit team . The total number of planned days for 2006/07 represents a decrease of 120 days (8.2%) compared to 2005/06. This reduction is due to the use of additional temporary staffing resources in 2005/06, to support last year's Plan, which are no longer available.
- 10 Current staffing levels do not allow all the identified systems and other auditable areas within the Strategic Plan to be reviewed in accordance with the required frequency. The shortfall is approximately 500 days per annum. As with the 2005/06 Audit Plan, priority has therefore been

given to 'high' and 'medium' risk areas. The scope for choice is however also restricted because;

- the Audit Commission expect that all the main financial systems will be audited annually;
- specific audit work is required to support the preparation of the annual Statement of Internal Control (which is published as part of the Statement of Accounts) and the Breaches and Waivers report;
- time must be allocated to investigate possible fraud and corruption, and participate in the Audit Commission's National Fraud Initiative;
- contingency time has to be set aside to undertake urgent or unplanned work which may arise during the year.

11 There is also a shortfall of 90 days between the available resources and the total number of days included in the 2006/07 Audit Plan. It is proposed that this excess will initially be accommodated by variations which occur during the year. However, should this not be possible, then it may be necessary to;

- further review the priority of audits set out in the Plan, and/or;
- request additional resources if any likely failure to deliver the Plan, due to resourcing constraints, would mean that the Council fails to observe its statutory responsibilities for the delivery of the annual audit and/or compromise the overall integrity of the Strategic Audit Plan.

12 The Plan includes specific systems audits and establishment audits identified through the risk assessment exercise. In addition, time has been allocated to undertake six monthly follow up reviews. These reviews are intended to provide assurance that agreed recommendations have been implemented by management. Details of the progress made by managers to implement recommendations will be reported to the S151 Officer, relevant Directors and the Audit and Governance Committee.

13 Time has also been allocated to provide ongoing support and advice to managers in respect of the design, implementation and operation of appropriate controls. The Plan also includes provision for undertaking special investigations (90 days) in addition to the general contingency of 90 days.

14 It is recognised that changes may need to be made to the Audit Plan through the year as a result of new or changed priorities and/or as risks are identified. All variations to the Audit Plan are reviewed and approved by the AD (Resources) ARM who is then responsible for reporting any approved changes to the S151 Officer and the Audit and Governance Committee.

2006/07 Counter Fraud Activity Plan

- 15 A copy of the 2006/07 Counter Fraud Activity Plan is attached as Annex 3. The Plan is based on the resources currently available to the Fraud Team, and includes details of;
- planned activities, including joint working;
 - proactive work;
 - resource allocation.
- 16 Much of the work undertaken by the Fraud team relates to the identification and investigation of suspected fraudulent Housing and Council Tax benefit claims. However, the team also works closely with Internal Audit and conducts investigations into a variety of internal and other external types of fraud. The current workload for the team remains well above the caseload levels recommended by the BFI, due to the high number of fraud referrals and additional work arising from various data matching exercises undertaken by the DWP and Audit Commission. This is currently resulting in extended lead times and investigations taking longer to complete than might otherwise be expected. Work is ongoing to manage the workload issues faced by the team and to ensure that resources are concentrated on those cases where the evidence of possible fraud is strongest. This approach should also allow more time to be spent undertaking planned proactive work to prevent and identify fraud, corruption and other wrongdoing.

Reporting Arrangements

- 17 Progress in completing the Audit and Counter Fraud Activity Plans is reported to the S151 Officer on a regular basis. Significant control weaknesses and related issues identified by Internal Audit will also be reported to the officer Governance Group on a regular basis. Any significant Governance issues, including those identified through the work of Internal Audit, will also be reported to Corporate Management Team via the officer Governance Group. Details of the work completed and significant issues identified will also be reported to the Audit and Governance Committee. An interim monitoring report and an outturn report will be programmed as part of the forward plan for the Committee.

Options

- 18 Not relevant for the purpose of the report.

Analysis

- 19 Not relevant for the purpose of the report.

Corporate Objectives

- 20 This report contributes to the overall effectiveness of the Council's internal management & assurance arrangements in helping to achieve the following corporate objectives;

- Ensure probity, integrity and honesty in everything we do (Objective 8.3).
- Provide accurate and transparent management information in a timely and effective manner (Objective 8.3).
- Improve the forward planning, openness, propriety, speed and effectiveness of decision-making (Objective 8.4).
- Continue to provide sound and timely financial management, and improve medium and long term financial planning. (Objective 8.6).
- Manage the Council's property, IT and other assets on behalf of York residents. (Objective 8.9).
- Implement risk management and business continuity procedures. (Objective 8.10).

Implications

21 The implications are;

- **Financial** – there are no financial implications to this report.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there are no legal implications to this report.
- **Crime and Disorder** - there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.

Risk Management Assessment

22 The Council will fail to properly comply with the CIPFA Code of Practice for Internal Audit in Local Government if the Audit and Counter Fraud Activity Plans were not approved. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when this is re-assessed in 2007.

Recommendations

23 Members are asked to;

- consider and approve the 2006/07 Audit and Counter Fraud Activity Plans;

Reason

To enable the annual Audit and Fraud plans to be delivered

- note and agree the proposed monitoring and reporting arrangements.

Reason

To enable Members to monitor the work of the Audit and Fraud teams effectively.

Contact Details

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Report Approved

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Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report